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I. CHINA/VIETNAM: NO LOVE LOST (12/10)

Despite positive media spin from China and Vietnam, the Vietnamese came away disappointed from their November summit

China distrusts Vietnam and will improve relations, inch by inch, only as it certifies Vietnam is living up to commitments on Cambodia and is bending on other difficult issues.

Though China and Vietnam share a deep ideological concern about the effects of the disintegration of communism in the USSR, their freeze has been slow to thaw. The long-standing confrontation and animosity between the two--Beijing views Hanoi as an ingrate; Hanoi considers Beijing a bully--continues to impede the improvement of relations.

Chinese and Vietnamese reassurances to southeast Asians that they will not return to the "lips and teeth" closeness of an earlier era reflects reality. China has insisted on relations of mutual benefit and equality, and will give no special favors to a serious competitor for influence in southeast Asia. Vietnam has hoped that restored ties and the appearance of subservience will bring benefits, but national interests still require keeping the powerful Chinese at bay.

Difficulties deferred. To achieve normalization, the two nations have deferred several difficult issues. While relations improve, these problems can probably be managed, but if relations worsen, they could become contentious. Vietnam wants China to forgive the large debt for war aid. And three

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territorial issues--the land border, the boundary line in the Gulf of Tonkin, and sovereignty over the South China Sea islands--remain unresolved. The two may negotiate to set aside the sovereignty question and agree with other claimants to develop the Spratlys jointly.

China has again raised the issue of the status of ethnic Chinese in Vietnam and asked Hanoi to take back many of the more than two hundred thousand refugees driven into China in the late 1970s.

Fruits of trade. China has allowed unofficial border trade with Vietnam to flourish and has staked out a claim to refurbish the factories it built in the north during the war. Vietnam is pushing to expand trade, especially taxable official trade, and is negotiating provincial-level trade agreements with the Chinese. Both China and Vietnam are rebuilding railways that connected the two countries before their 1979 war--giving landlocked southern Chinese areas an outlet to the sea through Haiphong, where the Vietnamese are preparing a dock for Chinese use.

An expansion of trade could facilitate a gradual improvement of ties in the future. Vietnam is also assiduously cultivating economic ties with other actors, however, including Taiwan. The Chinese, though upset over Vietnam-Taiwan ties [REDACTED] are conceding that Hanoi may develop unofficial economic ties with the island. (MFinegan) (SECRET/NOFORN)

II. CHINA/TIBET/INDIA: VOLATILE SITUATION ON EVE OF LI'S INDIA VISIT (12/11)

The Dalai Lama's year-long campaign for greater international recognition has emboldened Tibetan activists at home and abroad, and tensions in Tibet are high on the eve of Premier Li Peng's visit to New Delhi. Threats of demonstrations by Tibetan exiles have resulted in detentions and stepped-up security in India. [REDACTED]

[REDACTED] Tibet remains without a party chief; he has been in Beijing on medical leave most of the year.

Mid-December has been a sensitive period in Tibet in recent years; in 1988 major protests were sparked by celebration of International Human Rights Day on December 10. Li Peng's December 11-16 visit to India, the first by a Chinese premier since 1960, has energized Tibetan exiles there to organize protests. [REDACTED]

[REDACTED] Indian police have pre-emptively detained at least 14 Tibetans; further detentions and a clash

with protesters are possible. [REDACTED]

The Year of Tibet. Declaring 1991 the "Year of Tibet," the exile movement pulled out all the stops to attract attention to its cause. The Dalai Lama traveled extensively, for the first time meeting with major western leaders. The high-profile visits, together with the inauguration of VOA's Tibetan language service and the inclusion of language designating Tibet an "occupied country" in this year's State Department appropriations bill have been interpreted by some activists as signs of a change in US policy.

Heartened by the fall of communism in the Soviet empire and by the nervousness displayed in Chinese diatribes against "peaceful evolution," some expect a "breakthrough" on the Tibet issue before spring. [REDACTED]

Loose ends. [REDACTED]

[REDACTED] Tibet party secretary Hu Jintao remains in Beijing, where he has been for much of the year, [REDACTED]

[REDACTED] No successor has been named. Press reports indicate one political activist arrested in 1988 has died in hospital, reportedly from ill-treatment in prison, and another may be near death.

Prospects. Small demonstrations, followed by arrests, have continued throughout the year, as have police and military shows of force and imposition of "work teams" and political propaganda in monasteries. Now, heightened expectations and misperceptions of international support among independence activists, and jitters among Chinese security forces, present a volatile combination that could be set off by an incident in New Delhi, the death of imprisoned activists, or other unexpected events. (CClarke) (SECRET/NOFORN)

III. CHINA: THE RISE OF THE CITIES (12/2)

The impression of China as a peasant society persists, but China exhibits urbanization trends similar to those found in other large developing economies. Between 1984 and 1990 the proportion of the population classified as urban rose from less than a third to more than half. The increasing number, size, and economic importance of cities, and the developing linkages among them, may foreshadow important change in the post-Deng political landscape.

Urbanization delayed, but not denied. During much of the 1960s and 1970s, China's leaders practiced anti-urban policies, both for political reasons and as a major feature of their development strategy. The number of cities with a population of 500,000 or more fell from 39 in 1960 to 31 in 1965 and only recovered to 38 by 1975, despite a 262 million (40 percent) net increase in population during those 15 years.

The gradual relaxation of anti-urban policies as part of labor and commercial reforms has resulted in a rush to the cities. Rapid urbanization since the early 1980s has been aided by the extension of city boundaries, to integrate rural and urban economies and stimulate free-market agricultural sales. New towns were also formed, and their incorporation financially supported by the government, to prevent an army of redundant farm workers from descending on major cities. The population and number of cities has nonetheless swelled. Some 467 localities are now classified as cities, up from 193 in 1978. By far the largest increase has been in the number of smaller cities, 100,000-to-300,000 in size, which more than doubled in the 1980s.

Along with "managed" urban expansion has come an unplanned migration of as many as 50-to-70 million job seekers and temporary workers--the so-called floating population. About one worker in 20 is on the move, especially along the coast, where major cities host one-to-two million temporary residents. Rapid urban economic growth during the 1980s has mitigated the social strains caused by the massive migration, but local leaders blame the newcomers for ills ranging from a rising crime rate to failing family planning programs.

Rising urban economic clout... In 1990 China's cities may have accounted for as much as half its GNP, reflecting China's switch during the 1980s from a farm to an industrial economy. Government policies have enhanced the attractiveness of cities for new industries and set the stage for further rapid growth. In the mid-1980s, for example, 14 cities were given special authority to grant incentives to foreign investors, and 27 were allowed to establish high-tech development zones with special investment incentives.

...And a changing political role. Cities' political role has changed significantly during the past decade, though their greater economic and demographic importance has not been reflected in a concomitant growth in representation on the Central Committee or Politburo. Fourteen cities now have the status of provinces in the state plan, freeing the cities at least partly from the often stifling grasp of provincial officials and entitling municipal officials to a seat at the key meetings that authorize annual national economic plans.

Municipal officials have found traditional tools insufficient to deal with problems arising from industrialization and rapid urban growth and have made cities a cradle for industrial and

financial reform. Despite the falloff in centrally directed reform since late 1982, urban officials press ahead with their own programs. Efforts by the center to wrest back decision making, especially on financial matters, meet resistance from local leaders. (INR/EC/WNewcomb) (CONFIDENTIAL)

IV. MONGOLIA: WINTER OF DISCONTENT (12/12)

The arrival of Mongolian winter, compounded by a deepening economic crisis, is making political and economic reform increasingly uncertain. Mongolian leaders profess confidence they can keep reform on course, but they face rising popular discontent.

After two years of steady progress, Mongolia's economic and political reforms have entered a critical phase; the economy is rapidly deteriorating, wracked by rising unemployment, inflation, and the scarcity of most goods and foodstuffs. Despite a 25 percent grain harvest shortfall, it now appears there will be a marginally adequate food supply through the winter. But as temperatures plummet, the adequacy of coal supplies for heat and electricity in urban areas is uncertain.

Social discontent. The economic crisis has greatly exacerbated social tensions. Soaring crime and violence in conjunction with unemployment, inflation, and scarcity have created deep unease in a populace long accustomed to social stability and economic security. A strike last week by Ulaanbaatar's doctors and nurses is the latest protest in favor of reducing prices and rationing key goods.

Allegations of misuse of government funds by central bank authorities--most of whom are reformers, and leaders in the privatization drive--have angered the hard-pressed populace. Economic crisis could weaken the reformers, though conservatives have not yet been bold enough to offer an alternative to reform--beyond slowing privatization and price rises.

Party split. The ruling Mongolian People's Revolutionary party (MPRP) staved off division at a September party session; conservatives kept a low profile following the aborted Soviet coup. Last week two groups of reformers split from the party, but the real MPRP showdown is set for the December 25-27 party congress, where the major reform faction--which includes President Ochirbat and Prime Minister Byambasuren--will push to restore the party's pre-1921 name, Mongolian People's party, and to drop its socialist ideology.

MPRP and government reform leaders still face growing popular discontent, which they can defuse only by providing adequate food and energy supplies this winter. The food situation may not be critical, but Embassy Ulaanbaatar reports the outlook for adequate coal is now only 50-50; Mongolia still awaits the arrival of essential mining explosives from less-than-reliable Soviet suppliers. (JHuskey) (CONFIDENTIAL)

V. PAKISTAN: COUNTING ON ITS FRIENDS (11/16)

A recent flurry of high-level visits between Pakistan, Iran, and China underscores Islamabad's interest in reaffirming and strengthening its links with both neighbors. To minimize the effects of the US suspension, Pakistan increasingly will rely on this perceived proto-alliance as a source of military, diplomatic, and economic support. But simultaneous efforts by Tehran and Beijing to improve relations with Pakistan's arch-enemy, India, will spur Islamabad to keep close ties with Saudi Arabia, and despite current strains, with the United States.

Pakistani President Ghulam Ishaq Khan visited Tehran in September; army chief Asif Nawaz traveled to Beijing and Tehran in late October/November; and Chinese President Yang Shangkun visited Islamabad and Tehran at the same time. High Iranian officials have also visited Pakistan, expressing Tehran's interest in expanding ties.

Pakistan will take care not to offend Saudi Arabia, an old friend, but will nonetheless participate actively in what one Pakistani journalist has described as an "emerging regional triangle," bounded by various common interests that include opposition to perceived growing US regional and global influence.

Iran: The Limits of Friendship.

[REDACTED]

Pakistan is moving ahead with plans to construct with Iran two new oil refineries and is offering military goods such as artillery shells in exchange for Iranian crude. The two are also cooperating to control drug smuggling and separatism in their adjoining Baluch provinces.

But cooperation with Tehran is tempered by Pakistan's endemic Sunni-Shia tensions. After a particularly ugly outbreak of anti-Shia (and anti-Iranian) violence, Tehran accused Islamabad of not doing enough to safeguard Iranian diplomats or to help improve bilateral relations.

China: The Reliable Ally. In contrast to the United States, characterized as a "fair-weather friend," Pakistani leaders view China as their most reliable ally. Long before the US aid suspension, Islamabad often turned first to Beijing for military assistance.

[REDACTED]

In preparing for Yang Shangkun's October 26-30 Pakistan visit, Islamabad may also have calculated that recent strains in US-China relations would leave China more receptive to the notion that Pakistan shares with China a common interest in resisting US "hegemony." At the conclusion of Yang's visit, Pakistan's president announced to the press that he and his PRC counterpart shared a complete identity of views on "the proposed new world order."

The Indian Angle. Pakistan's enduring obsession, however, remains India.

[REDACTED]

[REDACTED]

[REDACTED] Pakistani leaders will be keeping a close eye on Chinese Premier Li Peng's December 11-16 visit to India. Islamabad must also be dismayed that Tehran's support on the Kashmir issue, once strong, has become more equivocal, but Iran is likely to continue to improve relations with India as it seeks reintegration in the world community.

(INR/NESA:SGhitelman) (SECRET/NOFORN/NOCONTRACT/ORCON/EXDIS)